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GUIDANCE FOR MAKING ENI GRADUATION DECISIONS

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Monitoring Country Readiness for Graduation Summary of Procedures

This report describes procedures for determining whether a country is ready for graduation from U S foreign assistance where assistance is being used to facilitate transition to democratic political institutions and a market-oriented economy The procedures are a practical application of available information on the aid-recipient countries of Europe and the new independent states in relation to the objectives for aid defined in legislation and by USAID

The goals of assistance in transition countries are organized into three areas building democracy, strengthening governance, and developing a market orientation in the economy Information is provided here to evaluate each country's performance on each goal

Tables 2a through 2z present three types of indicators, in the order in which they should be reviewed First are indicators of country achievement on various aspects of transition Second are indicators describing sustainability of the achievements Lastly are indicators with less direct interpretation in relation to transitions but more intuitive appeal These are used to verify the implications of the first two types of indicators For each indicator, a level of performance is specified to suggest an acceptable standard for graduation

To evaluate a country on one of the three transition goals, the country's performance on each indicator relating to that goal is compared to the graduation standard for the indicator Where data are missing or there is a mixture of acceptable and unacceptable levels of performance, a judgement is required to decide whether enough has been achieved to consider graduation The categorization of indicators (achievement, sustainability and verification) guides the data review toward conclusions regarding the strength of the achievement, whether the achievement is expected to persist, and how consistent the signals are

Acceptable performance on all three goals (democracy, governance and market-orientation) is necessary to recommend graduation from foreign aid Failure on any indicator, category of indicators, or goal suggests an area of focus for future assistance

Guidance for Making Graduation Decisions

USAID assistance to the countries of the Central and Eastern Europe, and the new independent states (ENI) is funded through two Acts the Support for East European Democracy Act (SEED) and the Freedom Support Act (FSA). This funding was originally designed for USAID's presence to be temporary¹, however, the schedule for closing USAID posts is not specified in legislation² Planned dates for close-out of assistance in particular countries has been specified by the U S State Department³ and by USAID⁴ Several factors determine when a particular post will be closed, including

- 1 whether the country is ready to graduate from foreign assistance,
- 2 whether foreign assistance is effective in addressing the country's problems,
- 3 whether U S "strategic" interests are served by USAID presence, and
- 4 whether U S political constituencies are served by USAID presence

This guidance establishes a procedure for assessing the first of these factors in the ENI region Some clarification of what is meant by the other factors is provided in Appendix 1

What is graduation?

The concept of graduation implies that a recipient country has achieved sufficient progress in critical areas of development to assure sustainable improvement without further USAID presence A country might graduate from needs in any or all of the three fundamental forms of assistance recognized by USAID emergency, transition, and sustainable development⁵ A country receiving emergency assistance, for example, might progress to a point where the emergency no longer requires foreign aid, i e might graduate from emergency aid It may then still need aid for transition to a democratic and market-oriented

Box 1.

SEED Act Goals

"Objectives of SEED Assistance .

(1) to contribute to the development of democratic institutions and political pluralism. .

(2) to promote the development of a free market economic system .."

P.L. 101 179 sec 2

¹The SEED Act of 1989 originally authorized three years of funding The intention to end assistance is documented in the annual *SEED Act Implementation Report*, prepared by the Coordinator for East European Assistance, U S Department of State

²The SEED Act provides some criteria for ending U S assistance, as discussed in Box 3, Appendix 1

³See annual *SEED Act Implementation Report*, U S Department of State

⁴See annual *Congressional Presentation*, USAID

⁵See *Strategies for Development Assistance*, USAID 1996

economy⁶ Similarly, a country may graduate from transition assistance while still needing assistance for sustainable development

The logic of these forms of assistance in the ENI region implies a hierarchy among them Emergency needs dominate USAID activities wherever they are needed and USAID has a presence Transition needs dominate USAID activity where they are present and there is no emergency Complete graduation is achieved when none of the three forms of aid is justified

Figure 1 illustrates the relationship among the different forms of assistance and the different factors governing the decision whether to end USAID activity in a particular country If foreign aid is ineffective or if no form of assistance (emergency, transition or sustainable development) is justified, and no other factor (strategic or political) justifies USAID presence, the aid effort should cease

Transition goals

The objectives of the SEED Act, which relate to assistance in Central and Eastern Europe, are focused in two areas building democracy and developing a free market economy (box 1) Legislated objectives for assistance to the new independent states⁷ are specified in an amendment to the Foreign Assistance Act of 1961 (box 2)⁸ They are much broader in scope, encompassing some elements of sustainable development in addition to transition

Box 2.

Freedom Support Act Goals

Assistance to the new independent states is authorized to:

1. meet urgent humanitarian needs,
2. establish a democratic and free society,
3. create and develop free market systems,
4. create conditions that promote trade and investment,
5. promote market-based mechanisms throughout the food production and distribution system,
6. promote health care and voluntary family planning services,
7. promote broad-based educational reform,
8. promote policies and technology transfer that reduces energy wastage and harmful emissions,
9. implement civilian nuclear reactor safety,
10. enhance the human and natural environment,
11. improve transportation and telecommunication infrastructure and management,
12. promote drug education, interdiction and eradication, and
13. protect and care for refugees and displaced persons

(P.L. 87-195, sec. 49b)

⁶"Transition" is used throughout this paper to refer specifically to national changes moving from centrally planned economic systems and single party political regimes to market-oriented economies and democratic political regimes

⁷The Freedom Support Act defines the independent states of the former Soviet Union to mean Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan (P.L. 102-511, sec. 3)

⁸This amendment to the Foreign Assistance Act is specified in the Freedom Support Act (P.L. 102-511, sec. 201)

The critical areas of development for graduation from transition are indicated in the goals for ENI expressed in the Bureau strategy, although they are not worded as explicit guidance for graduation (see box 3) The third Bureau goal relates more directly to emergency or sustainable development needs than to transition needs The following transition graduation goals are derived from the first two Bureau goals All three goals must be fully met to justify graduation from transition assistance

A country is ready to graduate from U S foreign aid when it has achieved

- 1 sustainable transition of the economy to competitive, market-oriented mechanisms,
- 2 sustainable transition of the mechanisms for political control to democracy, and
- 3 sustainable government transparency and accountability

Graduation standards

Standards for graduation must be specified to provide guidance underlying graduation assessment, but rigid adherence to specific indicator levels is inappropriate due to poor data quality, delay in data reporting, and uneven data availability Practical indicators of country performance on transition goals necessarily represent a compromise between theoretically ideal measures, and measures that are available, timely and relatively reliable

The problems of data quality can be largely overcome for decision-making purposes by verifying an initial set of indicators that relate directly to graduation goals with a set of indicators that link more intuitively to the assistance goals Thus, two sets of indicators are given below, one to describe performance in terms of the three major graduation criteria and one to verify that performance data are portraying the situation reasonably If the two sets imply different decisions regarding graduation in a particular case, further study of the reasons for discrepancy is needed until a decision is clearly supported

The indicators of country performance should account for achievements in various aspects of democracy, governance and market orientation, and for the likelihood that acceptable achievement levels will be maintained, i e for sustainability of democracy, governance and market orientation To assure that sustainability is fully considered in graduation, a set of indicators focuses on that aspect of performance Table 1 summarizes the indicators used here to report on graduation readiness Table 2 compares performance on each indicator in each country to a standard that describes graduation readiness Table 3 summarizes the performance of all countries in relation to graduation standards

Box 3.

ENI Goals

1. Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed.
2. Support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes.
3. Respond to humanitarian crises and strengthen the capacity to manage the human dimension of the transition to democracy.

Figure 2 illustrates the relationships among various indicators used to assess a country's readiness for graduation. Achievement, sustainability and verification indicators are considered sequentially for each of the three major graduation criteria. Graduation is recommended when adequate achievement and sustainability is shown and verified for all three graduation goals

Performance Indicators. Market Orientation

The goal of sustainable economic transition to competitive, market-oriented mechanisms reflects U S recognition that market mechanisms tend to be more efficient and to offer broader opportunities for participation than centrally planned economic mechanisms. These advantages promote aggregate economic growth and enhance the prospects for poverty alleviation.

The advantages of a market-oriented economy do not extend into all aspects of the economy. There remain significant roles for government activities in international relations, domestic regulation,⁹ providing public goods,¹⁰ and building safety nets.¹¹ The capacity of the public sector to fulfill an appropriate role in many ENI countries was severely reduced after 1989. It is critical that appropriate government activity not be discouraged by the effort to orient most of the economy to the use of markets.

Transition to a market-orientated economy for activities where private control is appropriate is accomplished by institutionalizing the environment for open markets and building the capacity of the private sector to take advantage of market opportunities. The institutional environment might be assessed by a subjective review of all extant economic legislation or by a review of key areas of policy.

The former approach is done periodically by several independent observers for countries in the ENI region. One of these was evaluated recently to see how well the subjective assessments of policies affecting economic freedom correlated with subsequent economic growth.¹² The assessment prepared by the Fraser Institute yielded an index that related strongly to economic growth, confirming the value of the index as a measure of policy design in relation to efficiency in the economy. The index considers macroeconomic management, trade and exchange policies, public finance and government intervention in

⁹Appropriate regulation includes enforcement of fair competition, and protection of public health, safety, environment and human rights.

¹⁰Public goods include national defense, information collection and dissemination (like weather reporting), physical infrastructure development and maintenance (like road building) and education.

¹¹"Safety nets" are institutions that protect against personal or group emergencies, including disaster relief, income support for the indigent, retirement insurance and minimal health care.

¹²Unpublished paper by Michael Crosswell, Bureau for Policy and Program Coordination, USAID, September 1996.

internal markets. Although the Fraser Institute index may be based on the most rigorous methodology, it is available only at five-year increments and, thus, is not typically useful for showing the present state of a country's policies, as needed to help with graduation decisions. The European Bank for Reconstruction and Development subjectively assesses economic policy in nine categories.¹³ Good performance is generally defined in terms consistent with the goal of market orientation. The average score across the nine areas is used in table 2 to verify the findings from more direct measures.

A more transparent approach to assessing economic policy change is to focus on key policies, such as laws passed and implemented for foreign exchange rate liberalization, removal of inappropriate trade barriers, privatization of production and distribution of appropriate commodities, and effective banking. While none of these policy areas can be represented in a single number, adequate performance in each area is strongly correlated with available data. Table 2 indicates existing data to serve as proxies for each of these areas.

Policies to promote privatization can be observed directly, but their impact is difficult to anticipate. Therefore, the ratio of private output to GDP is used here as a proxy that represents the effectiveness of privatization policies. This measure is an incomplete indicator of policy quality because it does not distinguish appropriate private activity from inappropriate. As a general indicator of progress in this area, however, it acceptably captures the overall level of implementation.¹⁴

Foreign exchange policy might be represented by comparing actual exchange rates to black market rates, but data on the latter are not reliably available. The policy quality is represented here by an annual report of the International Monetary Fund. The report does not give a numerical valuation of policy but it describes existing policy in a fashion that facilitates a subjective assessment of whether the policies are excessively restrictive. Standard characterizations are often sufficient to determine that policies are acceptable.

Trade policy covers many sectors so it is difficult to represent concisely. The trade-weighted average tariff is sometimes used as an aggregate measure, but it is not always available and is flawed by a narrow focus on tariffs among all possible trade barriers. Several measures have been developed to express all trade policies in terms of a tariff equivalent. This idea underlies the World Trade Organization efforts to harmonize the level of trade barriers. Tariff equivalents are not regularly reported for ENI countries. Policies affecting the agriculture sector, however, are regularly measured by the U.S. Department of Agriculture, such that trade policy effects on agricultural producers and consumers are shown explicitly. Their measures, producer and consumer subsidy equivalents, indicate the level of government

¹³The policy areas include large-scale privatization, small-scale privatization, enterprise restructuring, price liberalization, trade and foreign exchange, competition, banking, non-banking finance, and investment.

¹⁴For critique of this measure, see Josef Brada, "Privatization Is Transition— Or Is It?," *Journal of Economic Perspectives*, Vol. 10, No. 2, 1996, pp. 67-86.

intervention in the market for each major agricultural commodity. For the countries in where agriculture is a major component of GDP or exports, the agriculture policy measures are incomplete, but effective, indicators of policy liberalization.

banking?

The measures of sustainability reported in table 2 emphasize the sustainability of the economy rather than its market orientation. For example, unemployment is listed here not because low unemployment represents efficient resource use, but because it enhances political stability.¹⁵ If an economy is shown by the data to be acceptably market-oriented for graduation, it should also pass the test of sustainability before graduation can actually be recommended. The measures reported in table 2 for verification of country performance include broad assessments by international organizations, both public and private, as well as some broad indicators of personal welfare.

Performance indicators: Democracy

2 sustainable transition of the mechanisms for political control to democracy, and

democracy

PVO development

legal status

organizational and management capacity

financial status

sector cohesion

advocacy oversight

social and political stature

media development

free press

legal development

electoral process delineated

The ability to sustain democracy is measured by the extent of appropriate policies and institutions. Relatively subjective measures are probably necessary in this area due to availability of data, but appropriate indicators can be conceptualized. These may be collected or may be available in particular cases. Subjective indicators include the series prepared by Freedom House. More objective measures include the frequency of political violence, the number of private newspapers sold, and the level of charitable contributions. As with the economic indicators, some tradeoff among the aspects of democratic transition is appropriate.

Performance indicators: Governance

¹⁵For a discussion of unemployment in this sense, see Padma Desai, "Going Global: Transition from Plan to Market in the World Economy," in a forthcoming book to be published by MIT Press.

Verification indicators

Because the country performance indicators will be imperfect, their implications should be tested against alternative information on country performance before making a decision on graduation. Expert opinion, if framed in terms of the abstract goals for the country, is useful. Data on people-level welfare is also a likely source of validation. If the above process indicates a country is ready to graduate, but life expectancy is dropping, the graduation decision should review its premises.

The three transition graduation goals describe procedural developments rather than direct impacts on people. The verification indicators should include direct observations on aspects of human welfare.

Verification that performance is appropriate can be obtained through data that demonstrate

- 1) performance on graduation indicators has been improving or has been maintained at an adequate level over time, or
- 2) people-level welfare is adequate

basic human needs

housing

health (including some environmental needs)

safety (including some environmental needs)

food (safety net)

education

Appendix 1 Motivations for Foreign Assistance

The U S State Department recognizes six objectives for foreign policy Five of these motivate foreign assistance promoting sustainable development, building democracy, promoting peace, providing emergency humanitarian assistance, and advancing diplomacy Promoting U S prosperity is the sixth foreign policy objective.¹⁶ Serving at least one of these five purposes is necessary to justify U S foreign aid but none of the purposes is sufficient to lead to aid

The factors determining when USAID assistance to a country will cease include

- 1 whether the country is ready to graduate from foreign assistance,
- 2 whether foreign assistance is effective in addressing the country's problems,
- 3 whether U S "strategic" interests are served by USAID presence, and
- 4 whether U S political constituencies are served by USAID presence

The first of these is the subject of the main paper Each of the others is separately considered below

Effectiveness of Foreign Aid

A country's failure to meet adequate standards of infrastructure or human welfare is insufficient to justify foreign aid because foreign aid is ineffective in some circumstances For a country already receiving aid, a set of indicators and performance levels could be defined to describe the conditions under which aid should cease Aid might be ineffective due to weakness in donor capabilities relative to recipient needs, or it might be ineffective due to weakness in the recipient government Just as a country's development success can lead to graduation, its governmental failure can lead to "flunking out "

Weakness in donor capabilities might take the form of mismatch between donor abilities and recipient needs or it might come from shortage of donor funds Small countries in particular are inefficient as recipients due to the economies of scale in donor activity As donor budgets tighten, programs with potential to reach a relatively small population are likely to be cut The capacity of USAID *vis a vis* other donors also bears on the question of whether USAID is effective enough to justify

Box 4. Suspension of SEED Act Assistance

The President should suspend all assistance to an East European country pursuant to this Act if the President determines, and reports to Congress, that--

- (1) that country is engaged in international activities directly and fundamentally contrary to United States national security interests;
- (2) the president or any other government official of that country initiates martial law or a state of emergency for reasons other than to respond to a natural disaster or a foreign invasion; or
- (3) any member who was elected to that country's parliament has been removed from that office or arrested through extraconstitutional processes.

P.L. 101 179, sec 801

¹⁶USAID Congressional Presentation Fiscal Year 1996

continuing assistance In Eastern Europe, this issue is especially relevant as other donors are physically much closer and economically more integrated with potential aid recipients

Weakness in recipient governments is common among countries needing foreign assistance Some forms of weakness, however, render foreign aid ineffective, for example when corruption prevents aid from reaching targeted populations Foreign assistance virtually requires partnership with governments in host countries ¹⁷ The SEED Act identifies two specific conditions of government failure under which aid should be ended (box 4) The Freedom Support Act lists additional guidance of this type These include abuse of human rights, environmental irresponsibility and failure to cooperate in ending civil strife (box 5) Neither Act fully defines the circumstances under which a government might be deemed an unacceptable partner, but the cases they cite clearly indicate the nature of considerations that would justify ending aid when based on recipient government failures

Box 3.

**Minimum Standards
for Recipients of U.S. Assistance
among the New Independent States**

A country is ineligible for U.S. assistance if:

1. its government engages in a pattern of violating human rights;
2. its government violates any of various international terms regarding arms control, exchange of missile technology, or chemical or biological weapons;
3. it supports acts of international terrorism;
4. it fails to cooperate in uncovering evidence regarding Americans detained in the Former Soviet Union;
5. it gives certain forms of support to the communist regime in Cuba;
6. it takes no constructive action to protect the international environment and promote sustainable use of natural resources; or
7. fails to cooperate in peaceful resolution of ethnic and regional conflict--
unless the U.S. President determines:
 1. there are U.S. national interests at stake,
 2. assistance would serve human rights, rule of law or democracy, or
 3. there are emergency needs.(Some additional constraints are placed on assistance to Russia.)

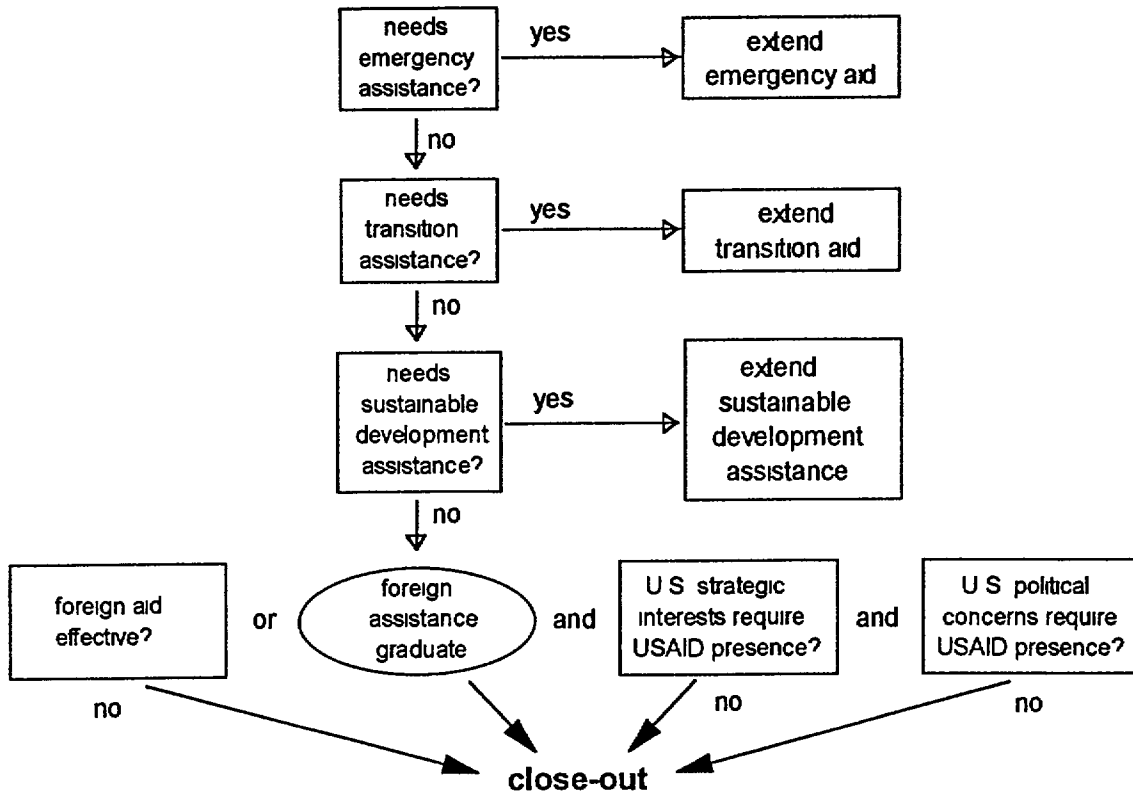
P.L. 97-195, sec. 496A

U.S. Strategic Interests

The strategic interests of the United States cover a wide variety of concerns, but the strategic interests that potentially motivate foreign aid are relatively few Broadly speaking, U.S. strategic interests include economic development and respect for human rights in other countries, but a narrower interpretation helps to focus on the additional reasons for assistance The SEED Act specifies only one strategic interest rational for ending aid to Eastern European countries, namely, where U.S. national security is threatened (box 4) The Freedom Support Act provides a longer list of reasons for withholding U.S. foreign aid, many of which essentially describe conflicts with U.S. strategic interests These include arms control, limiting terrorism, documenting the fate of Americans detained in the former Soviet Union, and isolating the Cuban government (box 5)

¹⁷In emergency situations, there may be no effective government, and emergency assistance would still be justified

Whether to end USAID presence



Graduation from Transition Assistance

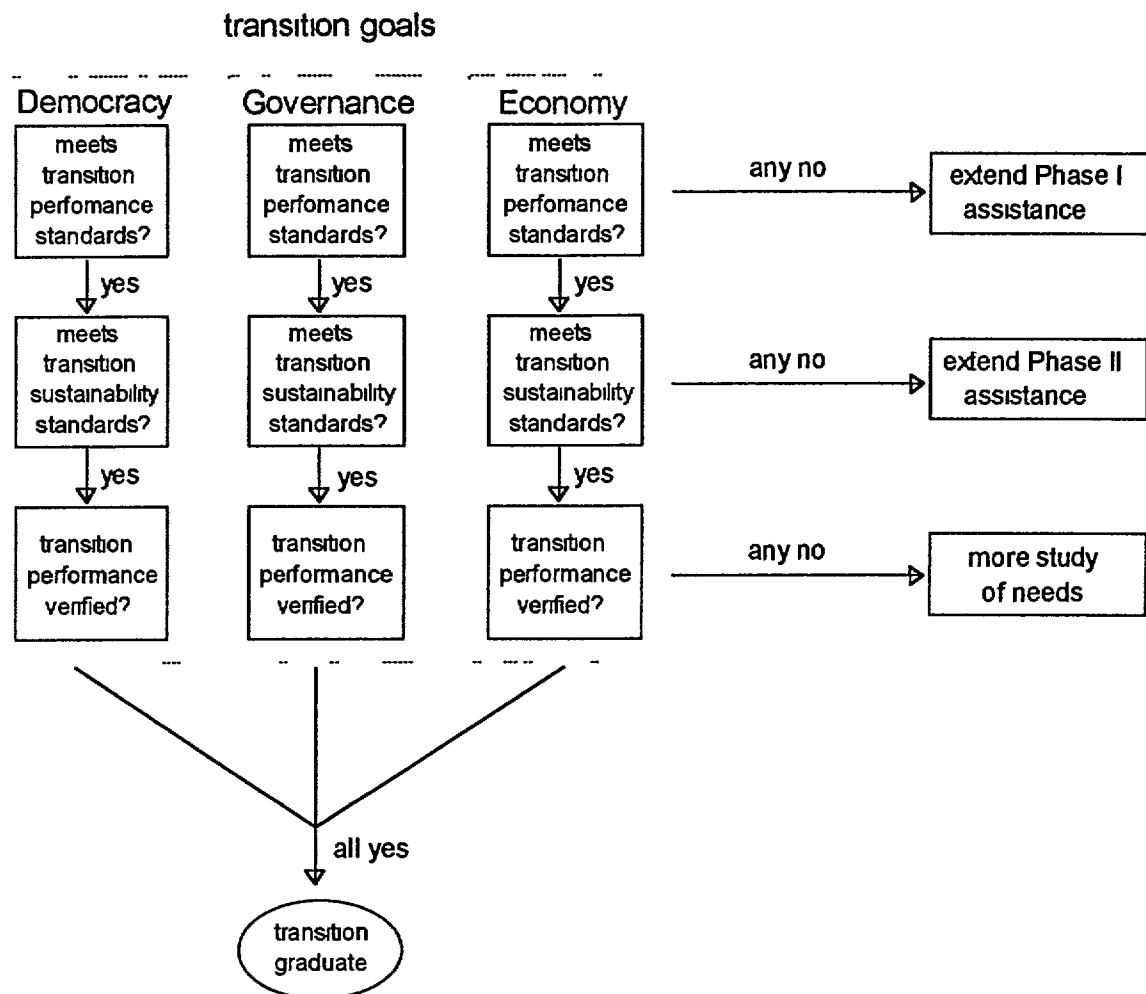


Table 1

Indicators of Country Progress toward Graduation

| | democracy | governance | market orientation |
|----------------|---|---|--|
| achievement | <u>government</u> electoral process delineated free press <u>civil society</u> NGO advocacy oversight | regular public disclosure of government actions and finances no human rights abuse safety net built | private output/GDP forex barriers trade component of agriculture PSE banking |
| sustainability | <u>government</u> smooth change of regime <u>civil society</u> NGO funding secure sector cohesion | independent judiciary established adequate government revenue | debt service/exports fiscal balance/GDP unemployment inflation domestic investment/GDP production diversity |
| verification | Freedom House index social and political stature of NGOs | crime rate | GDP growth GDP/peak GDP FDI/GDP EBRD policy index EU accession WTO accession individual welfare life expectancy infant mortality |

Table 2

**Country Progress toward Graduation
Albania**

| criterion | indicator | acceptable level | actual level | | |
|--------------------|----------------------------------|--|--------------|-------|------|
| | | | 1995 | '94 | '93 |
| market orientation | private output/GDP | 0.5 minimum | 0.60 | | |
| | IMF forex rating | more flexible | yes | | |
| | agricultural PSE | 0.0 minimum | na | | |
| | banking regulation | ? | | | |
| (sustainability) | debt service/exports | 0.25 maximum | 0.163 | | |
| | fiscal balance/GDP | -0.010 minimum | -0.131 | | |
| | unemployment | 10% maximum | | | 29.8 |
| | inflation | 25.0% maximum | 8.0 | 28.0 | 85.0 |
| | domestic investment/GDP | 0.200 minimum | 0.162 | 0.135 | |
| | export diversity | ? | | | |
| (verification) | GDP growth | last 2 years each positive | 6.7% | 7.4 | 11.0 |
| | GDP/peak GDP prior to transition | 1.0 minimum \$1386/cap (1988) | 0.27 | | |
| | FDI/GDP | 0.100 minimum | 0.125 | | |
| | WTO relationship | accession | no | no | no |
| | EU relationship | accession | no | no | no |
| | life expectancy | rising and above pre-transition level | 68.5 (1988) | 72.8 | 69.0 |
| | infant mortality | falling and below pre-transition level | 4.1 (1988) | 3.1% | na |
| | EBRD policy index | 3.0 minimum | | 2.3 | |
| | | | | | |

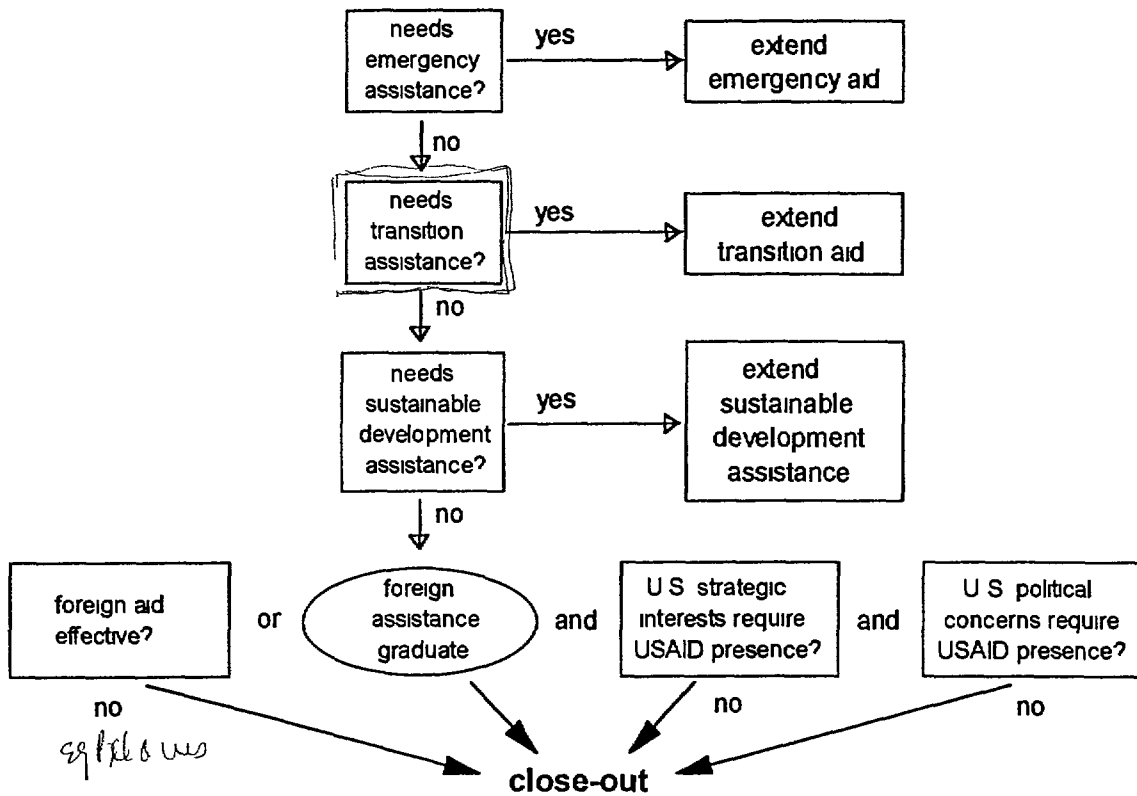
| criterion | indicator | acceptable level | actual level | | |
|------------------|--|---|--------------|-----|-----|
| | | | 1995 | '94 | '93 |
| democracy | held national elections | free and fair election | | | |
| | free press | | | | |
| | NGO advocacy oversight | | | | |
| (sustainability) | held second election | smooth installation of newly elected regime | | | |
| | NGO funding secure | | | | |
| (verification) | stature of NGOs | | | | |
| | Freedom House index | 3 0 maximum | 3 5 | | |
| governance | public disclosure of government actions and finances | regular and complete | | | |
| | human rights abuses | none | | | |
| | safety net | | | | |
| (sustainability) | government revenue | adequate | | | |
| | independent judiciary | established | | | |
| (verification) | crime rate | | | | |

Table 3

Summary of Country Performance
(number of graduation standards met)

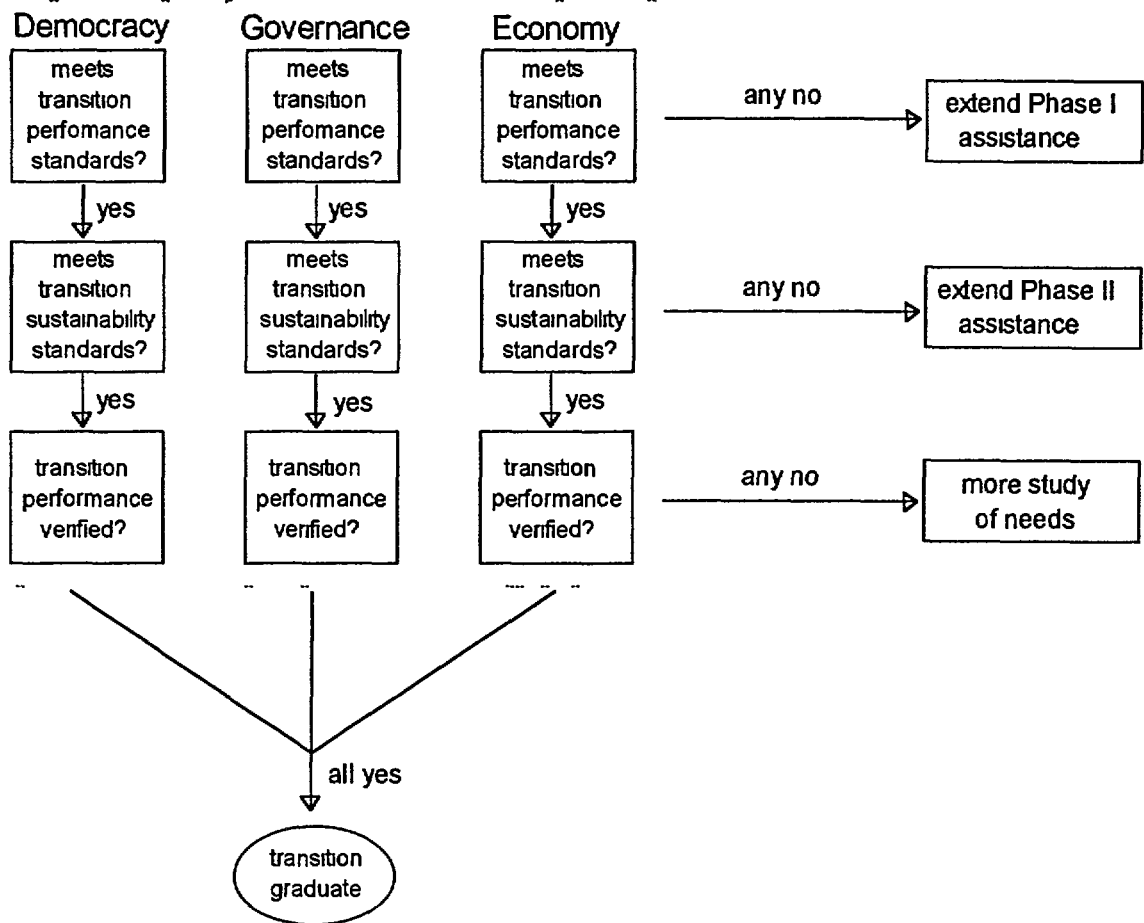
| | achievement | | | sustainability | | | verification | | |
|--------------------|-------------|------|----|----------------|------|----|--------------|------|----|
| | pass | fail | na | pass | fail | na | pass | fail | na |
| Albania | 2 | 0 | 8 | 2 | 3 | 5 | 4 | 5 | 3 |
| Armenia | | | | | | | | | |
| Azerbaijan | | | | | | | | | |
| Belarus | | | | | | | | | |
| Bosnia-Herzegovina | | | | | | | | | |
| Bulgaria | | | | | | | | | |
| Croatia | | | | | | | | | |
| Czech Republic | | | | | | | | | |
| Estonia | | | | | | | | | |
| Georgia | | | | | | | | | |
| Hungary | | | | | | | | | |
| Kazakhstan | | | | | | | | | |
| Kyrgyzstan | | | | | | | | | |
| Latvia | | | | | | | | | |
| Lithuania | | | | | | | | | |
| FYR Macedonia | | | | | | | | | |
| Moldova | | | | | | | | | |
| Poland | | | | | | | | | |
| Romania | | | | | | | | | |
| Russia | | | | | | | | | |
| Slovak Republic | | | | | | | | | |
| Slovenia | | | | | | | | | |
| Tajikistan | | | | | | | | | |
| Turkmenistan | | | | | | | | | |
| Ukraine | | | | | | | | | |
| Uzbekistan | | | | | | | | | |

Whether to end USAID presence



Graduation from Transition Assistance

transition goals



See
Chart 1.1
in
Annex

Table 1

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| | democracy | governance | market orientation |
|----------------|---|---|--|
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Table 2

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Albania

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| | IMF forex rating | more flexible | yes | | |
| | agricultural PSE | 0.0 minimum | na | | |
| | banking regulation | ? | | | |
| (sustainability) | debt service/exports | 0.25 maximum | 0.163 | | |
| | fiscal balance/GDP | -0.010 minimum | -0.131 | | |
| | unemployment | 10% maximum | | | 29.8 |
| | inflation | 25.0% maximum | 8.0 | 28.0 | 85.0 |
| | domestic investment/GDP | 0.200 minimum | 0.162 | 0.135 | |
| | export diversity | ? | | | |
| (verification) | GDP growth | last 2 years each positive | 6.7% | 7.4 | 11.0 |
| | GDP/peak GDP prior to transition | 1.0 minimum \$1386/cap (1988) | 0.27 | | |
| | FDI/GDP | 0.100 minimum | 0.125 | | |
| | WTO relationship | accession | no | no | no |
| | EU relationship | accession | no | no | no |
| | life expectancy | rising and above pre-transition level | 68.5 (1988) | 72.8 | 69.0 |
| | infant mortality | falling and below pre-transition level | 4.1 (1988) | 3.1% | na |
| | EBRD policy index | 3.0 minimum | | 2.3 | |
| | | | | | |

EBRD info avail in Dec.
 - info source
 - timing of data (when available)

| criterion | indicator | acceptable level | actual level | | |
|------------------|--|---|--------------|-----|-----|
| | | | 1995 | '94 | '93 |
| democracy | held national elections | free and fair election | | | |
| | free press | | | | |
| | NGO advocacy oversight | | | | |
| (sustainability) | held second election | smooth installation of newly elected regime | | | |
| | NGO funding secure | | | | |
| (verification) | stature of NGOs | | | | |
| | Freedom House index | 3 0 maximum | 3 5 | | |
| governance | public disclosure of government actions and finances | regular and complete | | | |
| | human rights abuses | none | | | |
| | safety net | | | | |
| (sustainability) | government revenue | adequate | | | |
| | independent judiciary | established | | | |
| (verification) | crime rate | | | | |

Table 3

Summary of Country Performance
(number of graduation standards met)

| | achievement | | | sustainability | | | verification | | |
|--------------------|-------------|------|----|----------------|------|----|--------------|------|----|
| | pass | fail | na | pass | fail | na | pass | fail | na |
| Albania | 2 | 0 | 8 | 2 | 3 | 5 | 4 | 5 | 3 |
| Armenia | | | | | | | | | |
| Azerbaijan | | | | | | | | | |
| Belarus | | | | | | | | | |
| Bosnia-Herzegovina | | | | | | | | | |
| Bulgaria | | | | | | | | | |
| Croatia | | | | | | | | | |
| Czech Republic | | | | | | | | | |
| Estonia | | | | | | | | | |
| Georgia | | | | | | | | | |
| Hungary | | | | | | | | | |
| Kazakstan | | | | | | | | | |
| Kyrgyzstan | | | | | | | | | |
| Latvia | | | | | | | | | |
| Lithuania | | | | | | | | | |
| FYR Macedonia | | | | | | | | | |
| Moldova | | | | | | | | | |
| Poland | | | | | | | | | |
| Romania | | | | | | | | | |
| Russia | | | | | | | | | |
| Slovak Republic | | | | | | | | | |
| Slovenia | | | | | | | | | |
| Tajikistan | | | | | | | | | |
| Turkmenistan | | | | | | | | | |
| Ukraine | | | | | | | | | |
| Uzbekistan | | | | | | | | | |

~~PD-AS-2-221~~

November 29, 1996

TO: Julie Otterbein, EEUD
Gordon Straub, EEUD
Wayne Ching, PER
Kathryn Stratos, DG
Maryann Riegelman, DG
Charles Uphaus, ED
Dick Johnson, ED
Mark Karns, ED
Carolyn Coleman, HR
Bruce Grogan, HR

~~Agenda~~

CC: Gloria Steele, PD
Jock Conly, PCS
Kathleen Horkin, CDIE
Pat Jordan, CDIE ✓

FROM: Carl Mabbs-Zeno, PD

MM-3

SUBJECT: Graduation criteria

Attached is draft guidance describing graduation criteria for ENI countries. I envisage that this guidance, when completed, would contain all the data necessary and available for deciding whether a country is ready to cease USAID assistance. The present draft provides a complete framework for such data, but it has many gaps in actual data because the technical offices have not yet been fully consulted.

In my November 5 memo to the technical offices (attached), I requested their input into the Bureau graduation criteria. The need for that input has been reiterated since then in meetings with Jock Conly, Barbara Turner and others, however, a product is needed soon. My plan is to fill in the remaining gaps from the best available information I can obtain by Friday, December 6. Please let me know as soon as possible if you would like to participate or if that date is unacceptable for your office.

In addition to this effort, input from the POTs and SOTs will be solicited. Jock Conly is presently preparing the approach for doing this. I expect their input will take the form of revisions to a complete version of the criteria, given the interest in having a complete version immediately.

1/11/97

November 5, 1996

TO: Julie Otterbein, EEUD
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Carolyn Coleman, HR

FROM: Carl Mabbs-Zeno

SUBJECT: Graduation criteria

USAID assistance to the countries of the ENI region was originally funded with the notion that USAID's presence would be temporary. As more posts close, ENI is increasingly called upon to demonstrate the logic underlying the USG close-out decisions. Fortunately, the State Coordinator has made clear that these decisions will reflect considerable attention to host country needs. It is critical that ENI provide strong analysis of these needs and USAID's capabilities.

The Bureau expertise on what is relevant in country performance for ENI planning resides mainly in our technical offices. Therefore, as I prepare a proposal for graduation criteria, I would like to hear from each technical office regarding what indicators and performance levels would indicate an ENI country no longer needs transition assistance.

To avoid the problem of imposing any additional requirements on information collection, I seek only indicators from existing data sources. I also recognize the problem of setting up a mechanical procedure to guide decisions and, therefore, intend to suggest that the indicators be applied in a decision process that leaves room for a wide range of reasonable inputs.

The indicators should:

- reveal what minimum of country performance would be adequate to recommend termination of a specified area (e.g. environment or democracy) of USAID assistance,
- be available from existing data sources, and
- be available for most SEED and/or FSA countries.

The indicators might:

- be quantitative or qualitative,
- focus on current performance or sustainability of performance.

The Working Group on NGO Sustainability provided a model by preparing a list of graduation criteria within the DG area. Their criteria are not yet complete and were not done specifically for the purposes I describe here, but they demonstrate what I am hoping to find.

Unfortunately graduation criteria are needed immediately to serve numerous decisions already under discussion. Perhaps the need for haste will bring focus to the deliberations over criteria. **Is your office interested in contributing ideas to represent your area of expertise in the graduation criteria discussion over the next week?** If so, please let me know so I can include you in the discussions (although I hope to avoid any large meetings). If you are not already familiar with the needs of this exercise, please give me a call (647-6420).